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Back from the brink: An interview with the trade minister of Colombia

Luis Guillermo Plata describes Colombia's efforts to recover security, overhaul its industries, and revive a teetering economy.



Back in 2002, we were close to becoming a failed state. There was a time when you could not travel around the country, where you could not drive from one city to the next, where people were fleeing the country, and where Colombia's situation was very, very difficult. There was no tourism, no investment—not local or foreign. People were afraid to go out to spend. So as we recovered security, of course, this became the basis for the recovery of the economy and the turnaround of the country.

However, we realized also that even though security is necessary, it's not the only thing that needs to be resolved. When I was a boy growing up and people would ask me, "What does Colombia produce?" I would say, "Coffee, flowers, bananas, oil, coal, footwear, apparel." And nowadays, being minister of trade and industry of Colombia, people ask me, "What does Colombia produce?" I still say, "Coffee, flowers, bananas, oil, coal, footwear, apparel." In essence, we have not changed our industry or our services base. It's the same that we had 30 years ago.

And the world has changed. The world has evolved. There's new demand in the world these days for things, products, and services that did not exist 20 years ago. And we still remain with an antiquated, or outdated, productive capacity in the country. So our biggest challenge is how to change that. Because, yes, we can negotiate free-trade agreements with many nations; we can engage more in free trade with the world. But it's not going to do much for us if we're selling bananas, flowers, oil, coal, and sugar. It's not going to make much of a difference for Colombia—unless, of course, we start producing new things that the world demands, and we seek new markets.

I see Colombia sort of the same way you do when you look at a company. You need to have a great sales force that's opening up new markets and finding new customers, and that's very important. But you also need a factory, which is producing what the market is demanding.

What was the greatest challenge when beginning that process?

It's very difficult when you talk to your traditional industry and you tell them, "Listen, we are falling behind. We cannot continue just on bananas and flowers and coal. We need to move into other things."

So, we had a lot of resistance in the beginning. Some people were saying, "Oh, Minister Plata is saying we have to move from bananas to microchips. How are we going to do that?" Well, I was not saying exactly that. I was saying if we're going to compete in bananas, we have to be world class in bananas. And we have to figure out the business that is going to allow us to be world class in bananas. If we're going to compete in BPO,¹ we'll have to be world class in BPO. I'm not saying that we have to phase out or get rid of traditional sectors of the economy. What I'm saying is that if those sectors don't rethink themselves and don't become competitive and don't transform themselves, eventually the market is going to phase them out.

¹Business process outsourcing.

As the government, how did you support such a transformation?

We invited all sectors of the Colombian economy—both the old, established sectors and those new and emerging sectors—to come and work with us. We said, “OK, this is what we’re going to do. We’re going to open up a contest, and those of you who want to work with the government under a PPP² framework and who want to make your sectors world-class sectors—meaning that you can compete in any country in the world that does not depend on subsidies, that does not depend on a closed economy, that does not depend on tariffs—those of you who want to do that, then you are invited to be part of the program.” They had to, in return, provide some money. This was not for free. And they had to provide a business plan saying how they would see their sector 25 years from now.

To what extent did you focus on attracting foreign investment and reaching foreign markets?

In terms of our export-development process, we started working more aggressively toward opening up the economy to competition and obviously to gain access to foreign markets. So we changed our policy of being a closed economy into becoming, or wanting to become, a global player.

In the past three years, we have approved 62 free-trade zones in Colombia. Actually, we just approved 2 new ones this morning. And as a comparison, in the previous 50 years Colombia had approved only 11 free-trade zones. So, it’s a big change, and obviously this has become a major driver of investment. Second, we introduced what we call the Legal Stability Pact. And this is key, because most developing countries like Colombia change the rules of the game often. And this is devastating for an investor.

All of the sudden your Excel model is brought down to pieces because the tax system, the structure of the country, changes. So in Colombia, we now have this Legal Stability Pact, which allows for the government to sign a pact with the investor in which we commit to the investor that the conditions that exist at the moment of investing in Colombia will be respected for the next 20 years, no matter what.

What advice would you give other developing economies?

Many countries are negotiating trade agreements and opening up markets, but they have to realize that if you don’t transform your productive system, the potential benefit is very, very limited—very, very marginal. Yes, you may sell a few more bananas, a little bit more coffee, a little more footwear, but you’re not going to reap any major benefits unless you’re also looking to revamp your whole industrial and services sector. ○

²Public–private partnership.